REPORT TO THE IDAHO STATE LEGISLATURE

BY THE

RAIL TRANSPORTATION ADVISORY GROUP

IN RESPONSE TO HOUSE CONCURRENT RESOLUTION 17

OF THE 2001 IDAHO LEGISLATURE

IDAHO DEPARTMENT OF COMMERCE
PROJECT LEAD AGENCY

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March 6, 2002

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The Advisory Group thanks the companies, associations, and commissions that gave generously of their time and expertise to assist in the development of this report.

Railroads selected for participation in the research were two Class I national railroads and several short-line railroads. Companies that ship commodities by rail were selected so as to include a broad range of industry categories widely dispersed geographically. Commissions and associations were selected to participate due to their broad knowledge of major sectors of the Idaho economy that rely on rail transportation.

A list of the organizations that were selected to participate in the rail transportation survey is available on request.

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Executive Summary

The 2001 Idaho Legislature, through House Concurrent Resolution 17 (HCR 17), created a short-term rail transportation Advisory Group consisting of the Idaho Departments of Commerce, Transportation, and Agriculture and of the Idaho Public Utilities Commission and the Idaho Historical Society. Under the direction of the Director of the Idaho Department of Commerce, this group was charged with assessing the impact of rail transportation, or the loss thereof, on the economic vitality of Idaho, with emphasis on rural locations.

The Advisory Group decided that the most cost-effective assessment could be conducted by means of telephone interviews. During November and early December, staff of the Advisory Group member agencies interviewed representatives of industries that rely on rail shipping, as well as industry associations and commissions. They also interviewed representatives of rail-line operating companies.

No formal sampling techniques were employed and this report does not draw statistical conclusions. This report presents observations and findings resulting from interviews and other research by the Advisory Group. Statements made in the report do not necessarily reflect the opinion of, or constitute an endorsement by, the Advisory Group or its member agencies.

The observations and findings of the Advisory Group are summarized as follows:

Economic Importance of Idaho's Rail Systems

- Railroads contributed $137 million to the state economy in 1999 through wages and retirement benefits to current and former railroad workers.

- Railroads originated a total of 12.8 million tons and terminated 10.4 million tons of freight traffic in Idaho in 1999.

- There are 1,714 miles of operating rail lines in Idaho. In 1999, these lines carried over 23 million tons of non-metallic minerals, saw logs, finished lumber products, potatoes, grains, animal feed, fertilizers, coal, lime rock, coke, beets, sugar, molasses, canned goods, various fuels, chemicals, and many other products.

- The approximately 1,558 railroad employees averaged $51,900 in wages plus $17,400 in fringe benefits in 1999.

- Idaho's economy, particularly in rural areas, relies heavily upon the rail freight system to facilitate movement of the state's agricultural, mineral, lumber and wood, chemical, and other natural resources and manufactured products to local, national, and international markets.

- Railroad abandonment can substantially increase the cost of transporting many commodities to market, particularly heavy or bulk commodities. This can impair the financial viability of rural producers and their service providers, and result in shifting jobs to more urban areas.

- A healthy rail freight system supports the competitiveness of Idaho's freight shippers, enhancing the economic vitality of the state and particularly the economy of rural areas.

- A balanced, competitive, multi-modal transportation system is important to the efficient flow of commerce necessary to sustain Idaho's economy. Because of spatial isolation, rural areas are particularly vulnerable to effects of loss of one or more transportation modes.

- Most Idaho companies surveyed that ship by rail state that they could not exist without access to railroads. Responses to the rail service survey reinforced the fact that rail transportation is an important cornerstone of many local Idaho economies.

<u>Observations on Current Conditions Expressed by Respondents in the Interviews</u>

- Shippers on Idaho's Class I railroads, the Union Pacific Railroad and Burlington Northern Santa Fe Railway, state that rail service reliability has been improving.

- Some short-line operators expressed considerable concern about the long-term economic viability of some branch lines on short lines that serve the lumber and minerals industries.

- Short lines indicated that they have insufficient capital available to invest in infrastructure improvements necessary to overcome years of deferred maintenance by the former Class I owners and also to upgrade their rail infrastructure to accommodate the newer 286,000-pound cars.

- Some short-line shippers and short-line operators indicated that their economic circumstances are tenuous and that both shippers and operators have somewhat limited ability to influence their own future.

- There is a need for rural grain elevators to develop high-capacity scales, increase rail side storage, and increase railroad siding capacity.

- Refrigerator cars are old and their supply is inadequate; cars for sugar and fresh pack potatoes hauling are old and need replacement or rehabilitation; and, more specialized cars for plywood and lumber are needed.

- There is a need for improved east and westbound intermodal (piggyback and container) loading facilities in south-central Idaho and in northern Idaho.

- Many shippers and short-line railroads stated that they are unable to negotiate affordable rates for rights to switch cars from one rail line to another in transit to final destinations.

- Extensive portions of Idaho's short-line railroad systems cannot accommodate the new 286,000-pound rail cars that are becoming the industry standard. This is also a concern at the national level because short lines at both the origin and destination can have this problem.

<u>Observations from the Interviews and Research for Current and Future Policy Consideration</u>

- For reasons sometimes beyond the control of the railroads, there probably will be some additional light-density rail line abandonment in Idaho where the rail freight traffic has declined significantly or where it has been eliminated completely.

- In the future, rail-line abandonment may not be limited to light-density lines. A trend may be developing in rail transportation that could result in future abandonment of Idaho rail lines having more substantial traffic volumes.

- Once adversity hits a short line, uncertainty in the minds of shippers and potential shippers can drive a self-fulfilling process that ultimately could result in rail line abandonment as this uncertainty redirects investment decisions.

- In the Camas Prairie area, shippers predict that railroad abandonment will cause grain elevator operators to gradually abandon their facilities and rebuild on the river in Lewiston, resulting in job shifts from the rural Camas Prairie area.

- Main-line track capacity is becoming inadequate in some areas, particularly over the Union Pacific main line through the Blue Mountains of Oregon.

- More freight might be removed from highways if intermodal shipping were not priced by the railroads as a premium service. This could help reduce highway maintenance costs.

- Better access to high-speed Internet service would benefit shippers on short-line railroads in northern and central Idaho by enabling them to determine rail car locations on main-line railroads.

- A State-operated rail-car leasing program might assist rail shippers in dealing with car shortages, but short-line railroads make money by leasing rail cars from leasing companies and receiving payment for the time these cars are in use on main-line railroads. These companies therefore may want to keep the cars privately owned. A possible advantage of State ownership is that the state might be more likely to qualify for federal funds.

- A number of companies interviewed were interested in participating in a rail service advisory or policy group.

- Class I railroads commented that all states (including Idaho) should place greater emphasis on fostering development of a multi-modal, integrated freight transportation system that is the most cost-efficient system-wide. They asserted that achievement of that objective may require reprioritizing state policies and resources (within the constraints of federal funding and policy).

- Many shippers stated that the State of Idaho could play a role as a facilitator and negotiator with respect to rail transportation issues that affect them.

- Shippers and rail-service providers stated that if certain remaining components of the rural transportation system are to be sustained, the State of Idaho, shippers, railroads, and the communities served by the rail systems will have to work together to accomplish that goal.

- Rail-line operators, rail service users, and industry representatives are generally receptive to supportive state action to keep rail lines operating when cost-benefit analysis demonstrates that the benefits outweigh the costs.

- Short lines are interested in participating financially with the State of Idaho on economically justified rail capital-improvement projects under the Idaho Rail Preservation Program or under a federal program to sustain local rail services.

- There is general support among shippers, crop growers, railroad operators, agricultural associations, agricultural commissions, and the Port of Lewiston for funding of the Idaho Rail Preservation Program.

Railroad Freight Service in Idaho - An Assessment

Introduction and Background

As a result of the 2001 Idaho Legislature's passage of HCR 17, a short-term Rail Transportation Advisory Group was created, consisting of the Idaho Departments of Commerce, Transportation, and Agriculture and of the Idaho Public Utilities Commission and the Idaho Historical Society. This group was directed to assess, under the supervision of the Director of the Idaho Department of Commerce, the impact of rail transportation or the loss thereof, on the economic vitality of Idaho, with emphasis on rural locations. It held its initial meeting on September 26, 2001.

The 2001 Idaho Legislature also passed into law House Bill (HB) 269, the Idaho Rail Preservation Program. As stated in the Legislative Intent language of the bill, the Legislature made the following findings:

- A balanced, competitive, multi-modal transportation system is required to maintain the state's economy and the efficient flow of commerce. The state's freight rail system, including mainlines, branch lines, short lines, rail corridors, terminals, yards, and equipment, are important elements of this multi-modal system.

- Idaho's economy relies heavily upon the freight rail system to move the state's agricultural, mineral, lumber and wood, chemical, and other natural resources and manufactured products to local, national, and international markets. The rail system thus contributes greatly to the economic vitality of the state.

- Since 1975, Idaho has lost over one-third of its rail miles to abandonment. The combination of rail abandonment and rail system capacity constraints may alter the delivery to market of many commodities.

- The resultant motor-vehicle freight traffic from rail abandonment increases the burden on state highways and local roads. In some cases, the costs of maintaining and upgrading state highways and local roads may exceed the costs of maintaining rail freight service.

- The economy of the state and the competitiveness of Idaho's freight shippers will be best served by a policy of maintaining and encouraging a healthy rail freight system by creating mechanisms that keep rail freight lines operating if the benefits of the service outweigh the costs.

With this background in mind, the Advisory Group undertook an assessment with the objective of determining the economic importance of rail service, or the loss thereof, to the economic vitality of Idaho.

Assessment Methodology

The Advisory Group decided that the most cost-effective assessment could be conducted by means of telephone interviews. During November and early December, staff of the Advisory Group member agencies interviewed representatives of industries that rely on rail shipping, as well as industry associations and commissions. They also interviewed representatives of rail-line operating companies

No formal sampling techniques were employed and this report does not draw statistical conclusions. This report represents the observations and findings from interviews and other research by the Advisory Group. The report does not necessarily reflect the opinions or endorsements of the Advisory Group or its member agencies.

Survey Participants

Included in the interviews were shippers encompassing the sugar, food processing, trout, grain, dairy, animal feed, lumber, and mining industry as well as the Port of Lewiston. The Intermountain Forest Industry Association and the Idaho Dairymen's Association decided not to participate.

Included in the interviews of rail operators were representatives of Camas Prairie RailNet, St. Maries River Railroad, Idaho Northern & Pacific Railroad, Eastern Idaho Railroad, Palouse River and Coulee City Railroad, Union Pacific Railroad, and Burlington Northern Santa Fe Railway. The Montana Rail Link and the Pend Orielle Valley Railroad, two other railroads that operate in Idaho, were not interviewed.

Overview of Idaho's Railroad System

There are three categories of railroads in Idaho: Class I, regional, and short-line. The Class I railroads are the two large mainline railroads, the Union Pacific Railroad (UP) and the Burlington Northern Santa Fe Railway (BNSF). They provide long-haul transportation consisting primarily of bulk commodities (coal, agricultural and forest products, minerals, etc.), and products moved by intermodal systems using containers and trailers on railcars. The Class I railroads provide a wholesale-type of service, linking Idaho to destinations throughout the United States, Canada and Mexico. The UP and BNSF operate 1,072 track miles in Idaho.

Ironically, in the late 1800s and early 1900s Class I railroads were acquiring smaller railroad companies, but as the 1900s came to a close, the Class I railroads were selling most of their branch lines to regional or short-line railroads in order to specialize in long-haul transportation. The result has been a significant nationwide increase in the formation of short-line railroads over the last decade or so. There are currently six short lines and one regional railroad, Montana Rail Link, operating in Idaho, maintaining 642 miles of track. (The Montana Rail Link does not serve any Idaho shippers.)

The short lines function as feeders to the Class I railroads, similar to the way that commuter airlines such as Horizon Air and SkyWest Airlines feed into the larger airlines.

Short-line railroads help keep the rural, less-populated areas of Idaho connected to the national railroad main-line network.

Short lines often have taken over routes that were marginal in the Class I railroad system because they did not generate sufficient revenue to justify continued reinvestment. With a lower cost structure and more flexible service, short-line railroads have been able to keep most, but not all, of these rural lines operational. The primary advantages of short-line operations are lower labor costs, a local ownership presence, and the ability and incentive to develop additional business. These advantages can result in viable operations where larger railroads have been unable to thrive.

However, in some instances the revenue is still not adequate to make up for decades of insufficient capital investment in rail infrastructure. For example, the Camas Prairie RailNet, a short-line railroad, abandoned the line from Spalding to Grangeville in the year 2000, primarily because, after years of deferred maintenance, the cost of upgrading the track and structures was too great.

Related to the deferred-maintenance issue is the fact that heavier 286,000-pound cars, the new industry standard of the Class I railroads, require substantially higher investment in the rail infrastructure. Either the short line railroad companies must meet these higher standards to adequately serve their customers, or they may lose their traffic base to other modes or other locations. Without the financial resources to handle the new rail cars, short lines may be forced to abandon more lines, and the traffic will shift to trucks, resulting in increased wear on state highways and local roads and requiring increased public investment in road capacity.

Short lines in Idaho and nationally continue to seek federal, state, or other assistance for track upgrades to help keep their lines operational and to provide competitive rail service as part of an intermodal transportation system.

Economic Significance of Idaho Railroads

Rail shipping is big business in Idaho. According to the Association of American Railroads (AAR), Idaho's freight railroads contributed $137 million to the state economy in 1999 through wages and retirement benefits to current and former railroad workers.

Payroll that year for the estimated 1,558 active Idaho freight railroad employees totaled $81 million. The railroad retirement system also paid $56 million in retirement benefits to 5,034 Idaho railroad retirees and their families. Idaho railroad employees are near the top of the U.S. wage scale, with average individual earnings of $51,900 plus fringe benefits averaging another $17,400. This income flow has a multiplier effect that generates additional jobs and income in the areas affected by rail transportation.

During 1999, Idaho ranked 33rd in the United States in the number of freight railroads (10) operating within the state, 37th in the total number of rail miles (1,780), and 33rd in rail traffic (84.7 million tons carried) within the state.

Rail cars terminating and originating in Idaho carry non-metallic minerals, saw logs, finished lumber products, potatoes, grains, animal feed, fertilizers, coal, lime rock, coke, beets, sugar, molasses, canned goods, various fuels, chemicals, and many other products.

Railroads originated a total of 12.8 million tons of freight traffic in Idaho in 1999. Farm products were the top commodity originated in 1999, accounting for 3.6 million tons, or 28 percent of total rail tons originated in Idaho. Other top commodities originated by Idaho railroads in 1999 include nonmetallic minerals (3.3 million tons) and lumber or wood products (2.9 million tons).

Idaho railroads also terminated a total of 10.4 million tons of freight in 1999, including 4.1 million tons of nonmetallic minerals (equal to 39 percent of Idaho's total), 2.4 million tons of farm products, and 1.2 million tons of chemicals.

One shipper alone estimates it ships nearly 24,000 rail cars per year, and members of a potato-shipper group use between 8,000 and 12,000 rail cars per year. In general, rail cars carry the equivalent of approximately 2.7 truckloads of commodities. New-generation rail cars coming on line carry the equivalent of up to four truckloads of commodities.

About one-third of all wheat and barley move by rail in Idaho, as well as about 30 percent of fresh pack potatoes. One company reported that 80% of its fertilizer products and 60% of its livestock feed come in by rail and the company is moving toward shipping up to 70 percent of its outbound food products by rail. Most dairy-cow feed from the Midwest and South is brought in by rail.

Virtually all shippers and all representatives of producers associations and commodity commissions interviewed in the railroad transportation survey agreed that, with few exceptions, the industries that use railroads for transportation could not exist without rail access.

Rail Line Abandonment

Many of the rail lines that were abandoned in Idaho over the last 25 years were lines on which the rail-traffic base had declined. These declines occurred for a variety of reasons, including rail shippers having transferred most or all of their shipments to other modes of transportation, rail shippers having relocated or shut down operations, changes in the rail lines' revenue-cost relationship such that the railroads could no longer earn an adequate return on investment, or a combination of these factors. Other reasons for declining revenues sometimes included effects of labor protection agreements and laws, lack of local market contacts, and inadequate innovation in marketing.

Once revenues declined sufficiently, railroads became reluctant or unable to devote limited financial resources to maintenance and to rehabilitation or upgrading of track, roadbed, bridges and other infrastructure on light-density lines. This deferred maintenance and investment resulted in poor track and roadbed conditions, inadequate

bridges to handle bigger, heavier rail cars, and lack of investment in new technology. Consequently, light-density rail lines became candidates for abandonment.

The shippers often assert that it is the deterioration of rail service that causes them to transfer their shipments to other transportation modes. The railroads, on the other hand, often assert that their service levels decline because the shippers have shifted their traffic from rail to truck or barge, forcing rail service and maintenance to be reduced to keep costs down. Regardless of which assertion may be correct in any particular instance, it is clear that rail service deterioration can lead to a downward spiral of reduced shipments, reduced rail revenues, and declining rail infrastructure.

Most of the over 900 miles of rail lines that have been abandoned in Idaho in the past 25 years have been lower-volume, light density lines. However, this trend appears to be changing somewhat with the advent of the short-line spin-offs by the Class I carriers and the advent of the 286,000-pound rail cars.

For reasons sometimes beyond the control of the railroads, there probably will be some additional rail abandonment in Idaho of light-density lines where the rail freight traffic has declined significantly or where it has been eliminated completely. An example is the Idaho Northern and Pacific Railroad line to Cascade, where closure of three Boise Cascade sawmills virtually eliminated all the rail-freight traffic. Another similar example is the Camas Prairie RailNet line to Jaype, where the closure of the Potlatch plywood mill also eliminated all the rail freight traffic.

But in the future, rail line abandonment may not be limited to light-density lines. A trend may be developing in rail transportation that could result in abandonment of Idaho rail lines having moderate, more substantial traffic volumes. An example of a short line abandoning a spur line having significant rail traffic occurred in year 2001 when the Camas Prairie RailNet received approval from the federal Surface Transportation Board to abandon the line to Grangeville.

This possible trend toward abandonment of lines with more significant existing traffic helped frame the Advisory Group staff's discussions with the interviewees in developing this report.

Perspectives of Shippers on Class I Railroads

Shippers interviewed that use Class I railroads generally perceived rail service reliability to be improving. Shipment tracking capabilities have improved and kept pace with shipper needs. Usage of rail versus truck varies substantially by commodity as well as by shipper. One major Class I shipper, for example, stated that for fertilizer operations it uses rail for about 80% of shipments, for feed operations it ships in 60% by rail, and for food processing operations it is making a major shift from emphasis on trucks to emphasis on rail. On the other hand, it ships livestock by truck exclusively.

Shippers identified the following problem areas on Class I railroads:

- Track capacity is becoming inadequate, particularly on the Union Pacific's main line over the Blue Mountains in Oregon.

- Refrigerator cars are old and their supply is inadequate.

- Shippers are having to purchase or lease refrigerator cars from third-party suppliers.

- Rail cars for hauling sugar are aging and need replacement.

- Inadequate rail car availability when needed is a widespread issue.

- Shippers assert that there is a significant problem with rates charged for switching rights, that is, for the right to switch cars from one rail line to another in transit to the final destination.

Intermodal service, where cargo is hauled by train in truck-trailers or in truck-loadable containers, can reduce truck traffic and reduce highway maintenance costs. Shippers assert that the railroads price intermodal freight as a premium service equivalent to that provided by trucks, making the use of intermodal service "infeasible." Shippers also state that intermodal ramp (loading) service is inadequate.

Some shippers expressed an interest in having the railroads "work more closely with them" on developing railroad sidings and needed storage facilities such as silos at rail loading sites both in state and out-of-state.

Perspectives of Short-Line Shippers

With the possible exception of trout growers and processors, most companies that ship by rail assert that they could not exist without access to railroads. For certain commodities, rail is the lower-cost mode of transportation. This is particularly the case for commodities that move long distances, say a thousand miles or more, to or from the state. Examples are lumber and wood products, fresh and frozen potatoes, sugar products, fertilizers, cattle feed, etc. Many of these commodities originate or terminate on short lines with the long haul by the Class I carriers.

A typical pattern is for a shipper to haul bulk raw product in by rail, add value by processing and packaging, and ship resultant higher-value specialty products by truck to distributors, wholesalers and retailers. Some shippers receive bulk cargo by rail and then redistribute it immediately by truck to local users such as dairies. Sometimes a purchaser buys sufficient raw materials volume to make it cost-effective to ship the finished products by rail. Refrigerated and non-refrigerated processed foods generally are shipped to wholesalers or retailers by truck, while frozen foods may go by rail. In one instance, a

major short-line shipper hauls nearly all inbound product by rail but ships only about one eighth of its outbound product by rail.

Scheduling and tracking of rail shipments is greatly enhanced for shippers on the Eastern Idaho Railroad because the railroad has arranged for them to be able to access the Union Pacific Internet site. This may be true for some other short lines as well.

A major issue for shippers is the ability of short lines to negotiate rail rates effectively with the Class I railroads. Timing and availability of rail cars is also a problem, but timeliness has improved greatly over the past five years. Still, some shippers say it often takes seven to as many as twenty days to obtain cars subsequent to requesting them. Some shippers need between one and three cars on their siding on an ongoing basis but instead receive more cars in bunches. In some cases sidings at shippers facilities are not long enough to hold the rail cars that arrive and this can generate rail-car storage costs.

Shippers of some potato products to the west coast for export must truck their product to Salt Lake City for loading on rail cars. The ability to ship by rail through Salt Lake City and on to California would be desirable. These shippers find the rail rates to Portland are prohibitive, although they would like to ship their products by that route.

Some products can be shipped only by rail. Most brewers, for example, require that malting barley be shipped by rail car, so with the closure of the Grangeville rail line, malting barley now must be trucked from the Camas Prairie to Lewiston or another nearby rail station for transshipment by rail. Some wood products such as White Fir are usually purchased in rail car loads only. Pine and cedar buyers, on the other hand, only want to purchase single truckloads. Lumber mill closures caused by lack of available timber resources and market adversities are detrimentally affecting the chances of continued operation of short-line rail operators.

One lumber producer suggested that perhaps the lumber industry as a whole could agree to commit to shipping a minimum of a specified number of carloads by rail annually in exchange for a commitment by the rail industry to maintain its investment. How this could be negotiated was not identified.

In the Camas Prairie area, shippers predict that railroad abandonment will cause grain elevator operators to gradually abandon their facilities and rebuild on the river in Lewiston. Farmers will increasingly have to ship individually by truck to these facilities. This may cause a shift to growing lower-value feed grains rather than premium malting barley. Employment in the Camas Prairie grain storage and shipping facilities will also shift to the Lewiston area.

Canned goods often go out in containers on trucks, and shippers expressed a need for an intermodal facility for both east and west rail shipments of cargo in trailers or truck-loadable containers in south central Idaho.

Shippers stated that business would gravitate to areas having multimodal shipping available. They also stated that predictability of the future existence of available multimodal transportation is very important to maintenance of strong local economic growth.

Shippers on short-line railroads are being increasingly affected by the inability of short lines to handle the new industry standard 286,000-pound rail cars on significant stretches of the short-line systems. This problem is of national concern as well, because it can affect short lines on both ends of a cross-nation shipment.

There is a lack of specialized rail cars for plywood and lumber as well as a shortage of refrigerator cars. One shipper stated that Union Pacific Railroad's inventory of refrigerator cars has declined by 39 percent over a ten-year period and said that it is imperative that 500 old refrigerator cars be rehabilitated. There also are significant issues regarding rail-car condition. Car doors often don't work properly, refrigeration units often are broken, and rail cars are dirty. Better inspection of equipment is needed. Within the potato industry there is an apparent need for better communication between farmers, shippers, and rail service providers.

Shippers were not aware of any potential new shippers in southern Idaho, except that there is likely to be continued growth in shipments of cattle-feed products to dairies, and a food processing company may build a manufacturing facility within the next three years. There is a perception by some shippers that the growth of the dairy industry could be exceeding the rate of rail-infrastructure investments on the Eastern Idaho Railroad. There is also a perception among shippers that the shippers and the State should work with the short lines to induce investment in production or processing facilities on the short lines rather than on the main lines to help sustain the economic viability of the short lines.

There is general support among short-line shippers for State funding of the Idaho Rail Preservation Program. Shippers stated that the State should be proactive in planning, developing, and funding rail projects. Some shippers supported the idea that the State should provide grants and loans for equipment rehabilitation and upgrading.

Perspectives of the Port of Lewiston

Shippers utilizing the Port of Lewiston ship paper, forest products, grain, containers and other products by barge to the Portland area for transloading to steamships. Port officials expressed concern that the Port is being gradually cut off from rail transportation to the north, south and east as rail abandonment continues in the Lewiston area. Since the abandonment of the Grangeville branch of the Camas Prairie RailNet, the grain that moves by barge or rail to the Portland area export elevators now arrives in Lewiston entirely by truck. Handling of container cargo by rail at the Port has declined to almost nothing for the time being.

However, if channel restrictions on the Columbia River were to curtail deep draft ocean-going ships' access to Portland, steamship lines that now receive cargo from Lewiston might move from Portland to Seattle or Tacoma. This happened on a temporary basis several years ago, and the Port's rail use went up dramatically. If this happens again, or if steamship lines move to Seattle or Tacoma for other reasons, then rail shipments from the Port would likely increase as container traffic would shift to Puget Sound. If the dams on the Snake River ever were breached to enhance endangered Salmon and Steelhead fish populations or were otherwise changed so as to curtail barge transportation, then rail service from Lewiston would become all the more essential. These possibilities increase the existing importance of preserving and enhancing the Port of Lewiston's access to rail transportation.

The Port officials would like to have better access to the Canadian grain market, and as rail service is increasingly curtailed, it would value government investment in improvements to US Highway 95. Port officials also would like the State to undertake rail and intermodal planning on a statewide basis, take steps to prevent rail abandonment where economically feasible, and fund the Idaho Rail Preservation Program.

Perspectives of Producers Associations and Commissions

Nearly one-third of fresh pack potatoes also move by rail, requiring between 8,000 and 12,000 refrigerator rail cars per year. The Class I railroads are shifting from 50-foot refrigerator cars to 64-foot cars, which carry the equivalent of four truckloads of potatoes. While this clearly improves the efficiency of the main-line operations, significant portions of short-line railroads on either end of the shipping cycle either cannot handle the weight of fully loaded new cars at all or can only handle them at very slow train speeds. This puts the short-line railroads at a major disadvantage. The larger cars also will drive more shippers to use trucks because only very large recipients of the shipments can handle the quantities contained in the new 64-foot cars.

According to these organizations, about one-third of Idaho wheat and barley is shipped by rail, with the remainder traveling by truck or barge. In the case of malt barley, brewers require that it be shipped by rail car. More than 57,000 acres of barley are planted in Idaho, Lewis, and Nez Perce counties, producing more than 74,000 tones of grain. The increased grain transportation costs resulting from changing from rail to truck shipping, according to the commissions, amounts to $4 to $5 per ton. It appears that the grain shipping companies are passing the consequential increased shipping costs back to the farmers in the form of lower purchase prices. As a result of these cost changes, the future of malting barley as a crop on the Camas Prairie is in doubt.

According to the Producers Association and the Wheat Commission, grain silo operators formerly were able to put together a cooperative effort to load a 100-car unit train, but railroads will no longer allow them to do so. They also assert that railroads will not break up a unit train between two or more sites, although they are willing to send a shuttle train to grain elevators at Bliss. They stated that it is their perception that warehouse and grain silo operators are reluctant to complain about rail service issues. There appears to be a

general perception that the Class I railroads are sometimes uncooperative with respect to pricing and servicing of agricultural shipments in those geographic locations of the country, such as southern Idaho and Montana, where limited effective rail transportation competition exists.

Pointing out that Class I railroads are able to deliver corn from the Midwest to Idaho feedlots for less than the cost of delivering corn from Idaho growers, the Producers Association and the Wheat Commission said that this cost structure is "driving crop planting decisions of farmers nationwide." Apparently it also is driving rail-line shipping decisions, because they stated that railroads do not want to haul grain from Idaho to grain mills in Utah or to shipping points in Portland, even using 100-car trains.

One characteristic of grain markets is a trend toward producing smaller quantities of grains having specific characteristics. It represents the grain industry's opportunity to create "value-added" products. This trend runs counter to the direction of Class I railroad economics that emphasizes bigger rail cars, unit trains, and long distances. Some of these specialty grains are shipped in containers or in trucks. These are the only grain products that can sometimes utilize intermodal shipping methods.

While it would be desirable to increase rail shipments of feed barley to Southern California, it doesn't occur very much at present. This market represents a potential area of growth.

Inadequate timing of rail car availability is identified as a significant problem, which may indicate a need for a larger supply of rail cars. There is a shortage of refrigerator cars for fresh pack potato shipments, with the average shipper receiving five cars less than needed. There were 4,600 refrigerator cars 10 years ago, while there are only 2,800 currently. It can cost shippers from 53% to 63% more to ship fresh pack potatoes by truck instead of rail to major markets such as Chicago, New York and Miami. As also pointed out by Class I shippers, there is a significant problem with rates charged for switching rights, that is, for the right to switch cars from one rail line to another in transit to the final destination.

The Idaho State Historical Society has stated that the State of Idaho should evaluate rural rail lines for their tourism potential based on their place in Idaho's heritage. At present, the Idaho rail line having the greatest such potential is the Camas Prairie RailNet's line to Grangeville, which is currently in process of abandonment. It is a prime candidate for tourism development due to its extraordinary engineering significance, although some other rail lines are also worthy of consideration. While is not usually the case that spur lines or short lines can survive exclusively from tourism based on historical significance, some have done so in other states. A strong heritage tourism component added to traditional activities of a short-line railroad might be sufficient to make the difference between profitable and unprofitable operation.

Funding of the Idaho Rail Preservation Program would be viewed favorably by these organizations.

Perspective of Railroad Operators

Class I Rail Operators

Burlington Northern Santa Fe Railway (BNSF) employs about 140 workers in Idaho and will add 50 more when the new refueling facility opens on the Rathdrum Prairie in 2003. Over 16,000 rail-car loads originate from Idaho and over 3,500 terminate in Idaho, with Post Falls being the heaviest loading area. These statistics do not include rail cars that traverse the Palouse River, St. Maries River, Pend Oreille Valley, and Camas Prairie RailNet systems utilizing on approach either BNSF or Union Pacific track. Also not included are intermodal shipments, which travel by truck to or from an intermodal facility at Spokane.

Union Pacific Railroad (UP) employs around 1,000 workers in Idaho, but it did not provide data on the number of carloads originating or terminating in the state. That number is much larger than the comparable figure for BNSF, however. In addition to traversing southern Idaho, UP provides the only direct rail access from the United States to Canada through Eastport in northern Idaho. Union Pacific gives shippers, including shippers on connecting short-line railroads, access to an Internet site enabling them to track where rail cars containing their shipments are located in transit.

Both UP and BNSF identified the importance of future capacity increases. BNSF needs to install more double track and build a second bridge across Lake Pend Oreille, and UP needs to expand and upgrade bridges and tunnels. Both companies will be installing heavier rails to handle new generation rail cars. These improvements will require huge capital investments by the Class Is and the short lines.

UP pointed out a need for capacity increases in industries that use railroads for shipping. In particular, needs were identified for rural grain elevators to develop high-capacity scales for weighing product, increased rail-side storage, and increased railroad siding capacity.

UP expressed concern for the continued existence of the short-line railroads. It cited their inability to handle the weight of fully loaded new-generation rail cars, and inability to obtain capital for maintenance and improvements. Both railroads were concerned about the impact on short-line railroads of government-funded upgrades to highways, which they assert could result in subsidizing a shift of rail freight to trucks if the trucks do not pay the full cost of the public investment attributable to their operation.

The representatives of both railroads were asked if they would "participate financially in improvements to rail infrastructure under the recently enacted Idaho Rail Preservation Program and/or under any federal rail infrastructure improvement programs." BNSF said it would "participate where it makes good business sense" and that it was very receptive to the concept. UP said it would be "wonderful" if the State were to assist short lines and that the UP would "politically support" programs to aid short lines if they help those lines to bring product to the main lines.

The representatives of both railroads were asked what role they felt the State of Idaho should play in the future of rail transportation. Their response addressed three areas:

(1) They suggested that it would be good if the State were to assist short-line railroads, provided that the result was preservation or expansion of the flow of products from rural areas to the main lines and was economically justified.

(2) Class I railroads operators commented that all states (including Idaho) should place greater emphasis on fostering development of a multi-modal, integrated freight transportation system that is the most cost-efficient system-wide. Such an integrated multi-modal transportation system encompasses roads and highways, railroads, and air and water transportation. They asserted that achievement of that objective may require reprioritizing state policies and resources (within the constraints of federal funding and policy).

They stated that failure to implement policies based on this broad concept is particularly detrimental to short-line railroads.

(3) They suggested that it would be useful if the State were to assist in establishing intermodal facilities where appropriate to make freight transportation a more integrated system and reduce costs.

Short-Line Rail Operators

Some short-line operators expressed considerable concern about the long-term economic viability of the short lines that serve the lumber and minerals industries.

During the period from 1980 to 1995 federal funds were available for railroad track rehabilitation. Some short-lines benefited from this. For example, the St. Maries River Railroad provided $1.5 million dollars of matching funds so that the railroad could receive an additional $4.5 million in federal funds through the Idaho Transportation Department to restore the system it previously purchased from the bankrupt Milwaukee Road.

While the short lines replace thousands of railroad ties each year, they state that they do not have sufficient funds to keep up with tie-replacement needs. Sufficient funds also are not available to upgrade the load-bearing capacity of bridges and other infrastructure to handle fully loaded new-generation rail cars, and train speeds are currently limited to 25 miles per hour or less in many areas. Rail and tie improvements are needed immediately to maintain or increase train speeds. Upgrading of bridges, roadbeds, and rails to handle the new 286,000-pound rail cars should be done within the next five years.

All of the short-line railroads surveyed are interested in participating financially in infrastructure improvements under the Idaho Rail Preservation Program or under federal programs when it is economically justified, although one company said, “it would depend upon what conditions were placed on obtaining the funds.” Investment is needed to

repair and upgrade ties, equipment, and bridges, as well as to develop rail spurs to shippers and to develop intermodal facilities.

State financial assistance to funding of infrastructure improvements through the Idaho Rail Preservation Program was viewed as important by both the short-line and Class I rail operators. However, there are mixed opinions among short-line operators about having the State purchase rail cars and lease them back to rail operators. An argument against it is that some short-line railroads make money by leasing rail cars from car-leasing companies and receiving payment for the time these cars are in use on main-line railroads. An argument for it is that the State of Idaho might be more likely than private operators to qualify for certain federal funds to upgrade the equipment.

Short-line operators stated that it would be useful if the State of Idaho could assist in negotiation of agreements between the Class I and short line railroads providing short lines with access to information on the location and timing of trains. Some short-line operators also expressed the opinion that communication with Class I operators has deteriorated and that this might be rectified by creating an Internet-based rail car management system that both shippers and short lines can access. The operators requested that rail cars be equipped with global positioning system (GPS) technology.

This problem may be unique to railroads in north and central Idaho and may be partially the result of inadequate high-speed Internet connections to the UP and BNSF web sites. Shippers on the Eastern Idaho Railroad, for example, have access to the UP website and find it very useful. Some other short lines may have this access as well. The State might evaluate whether it could play a role in improving high-speed connections to the Internet to facilitate cost-savings for those short lines that currently lack such access.

Short-line operators stated that better integration of Class I and short line rail-car management is crucial to the future of rail transportation to rural areas. Rail shippers would value more consistent service throughout the entire length of each trip. Further, the shipping capabilities of the short lines need to be integrated into the entirety of the trip plan for each shipment. There often are short lines at each end of a shipment.

One issue of concern to short-line railroads is that Class I railroads charge the short lines by the rail car rather than by car weight. For this reason, the new larger rail cars have become more expensive because their weight at full capacity exceeds the weight capacity of bridges on some of the lines. Even where there are no bridges, the weight of new rail cars when fully loaded often requires short-line trains to travel slowly. Thus, while the new rail cars either cannot be loaded fully or must be operated at very slow speeds, the fee per rail car is charged as if each car were fully functional.

A second issue of concern to the short lines is the rate-setting policy of Class I railroads. When short-lines were “spun off’ from Class I railroads, the difference between the rates made possible by the resultant Class I cost-savings and the pre-spin-off rates provided the basis for the revenue stream to the short lines. Now, according to some short-line operators, the main lines are not leaving room for the short-lines’ fees in setting their

total-trip fees and are purportedly encouraging the shippers to negotiate down the short-lines charges.

A third issue of concern is that customers and potential customers of short lines are becoming increasingly concerned about whether the short lines will be there for them in the future. This is adversely affecting customers' and potential customers' investment and location decisions. Uncertainty in the minds of customers can create a self-fulfilling prophecy by curtailing use of short-line railroads, reducing revenues essential to rail operators' continued existence. If short-line railroads are to survive, customers must be assured that their investments are not going to be threatened by having access to rail service eliminated.

A fourth issue of concern raised by short-line railroads is the potential for truck operators not paying the full cost of that portion of the public investment attributable to heavier truck operation, which could amount to a subsidy of trucking and potentially lead to adverse impacts on short-line railroads.

A fifth issue of concern is the supply and condition of refrigerator cars in southern Idaho. There is a need for more refrigerator cars and a need for refurbishing many of the cars that are available. Complicating the refrigerator car issue is the larger size of new-generation refrigerator cars. They are too big for many smaller shipment receivers to handle and their use may cause more shippers to utilize trucks.

A sixth issue of concern is the need for government policymaking and leadership in development of new intermodal facilities and in operation of existing intermodal facilities.

Current Idaho Rail-Related Developments

Potlatch Corporation has considered putting a small dimension lumber mill in the town of Bovill. The St. Maries Railroad would serve this facility. At this point in time, however, there are no specific plans to establish such a facility.

A project by a Canadian company, Alchemy Ventures Ltd., in the area extending from Bovill to Deary, has the potential of becoming a major clay-mining operation requiring substantial upgrading and extension of rail service. Both the St. Maries River Railroad (STMA) and the Palouse River and Coulee City Railroad (PRCC) currently access the area. However, portions of the PRCC line suffered flood damage several years ago, and the railroad has federal approval to abandon the line between Bovill and Harvard. Clay is used for paper coatings and as fillers and extenders for other manufactured products. The project has been undergoing site and materials testing, planning and zoning approval and a search for major investors. If the project becomes feasible, it could result in the shipment of millions of tons of dry powder or wet slurry product by rail and possibly by barge. If the project were begun on a small scale, the short lines in the area would need to make some modest investment in infrastructure. If it is begun on a large scale, the investment in rail infrastructure could involve millions of dollars.

UP plans by as early as March 1, 2002 to close its Pocatello yard which classifies and switches cars by using a raised area referred to as "the hump" which takes advantage of the force of gravity. This closure will affect about 30 employees. UP plans to offer the workers opportunity to transfer to other locations. It also may dismantle additional tracks at the yard, but continue to perform several "flat" switching operations and be able to handle all local customers on a timely and reliable basis. The railroad employs about 800 people in Pocatello, but eliminated more than 400 jobs during the last four years. Since 1975, the city has lost 1,500 railroad jobs.

Potential Roles for Idaho State Government as Identified by Those Interviewed for This Report

Perception of Short-Line Railroads

- Financial assistance in upgrading tracks, ties, bridges of short-line railroads may be crucial to short-line survival.

- Assistance in establishing access to high-speed Internet service may be useful in northern and central Idaho.

- The concept of a state-operated rail car leasing program received mixed opinions from short-line railroads.

- The State should fund the Idaho Rail Preservation Program.

Perception of Class I Railroads

- Government assistance in establishing intermodal cargo terminals would be welcomed.

- Class I railroads operators commented that all states (including Idaho) should place greater emphasis on fostering development of a multi-modal, integrated freight transportation system that is the most cost-efficient system-wide. They asserted that achievement of that objective may require reprioritizing state policies and resources (within the constraints of federal funding and policy).

Perceptions of Short-Line Rail Shippers

- Shippers perceive there to be a need for intermodal (piggyback and container) loading facilities in northern and southern Idaho.

- A loan guarantee program for short-line rail buy-outs by shipper and producer groups could be helpful in preventing abandonment.

- The State could provide some incentives to ship by rail instead of by truck.

- The State should fund the Idaho Rail Preservation Program.

Perceptions of Class I Rail Shippers

- Many shippers stated that the State of Idaho could play a role as a facilitator and negotiator with respect to rail transportation issues that affect shippers. They suggested that this might be accomplished through establishment of an advisory or policy group.

- The State could play a role in reducing truck wear-and-tear on the highways by working with railroads on pricing of piggyback and container (intermodal) service. It is priced as a premium service, making it infeasible for many shippers to use.

- A State-operated rail-car leasing program could assist some shippers.

- Government assistance in establishing intermodal cargo terminals both eastbound and westbound would be welcomed in southern Idaho.

- The State could provide rail-service monitoring and information-sharing assistance to shippers.

Perceptions of Producers Associations and Commissions

- The State could assist in negotiating rates for rights of switching cars between railroads. This is a significant issue for grain shippers, although it was not made clear what functions these groups would like the State to perform or how the State would get involved in private-sector negotiations.

- These groups asserted that the State should be more involved in rail freight transportation issues affecting Idaho shippers and short-line rail companies. Mergers were identified as one such issue. Again, it was not made clear how these groups thought the state could be involved in such private-sector negotiations.

- The Idaho State Historical Society has stated that the State of Idaho should evaluate rural rail lines for their heritage tourism potential.

- The State could work with short-haul rail lines and long-haul rail lines with regard to rail-car availability and rates charged for pickup of rail cars.

- The State could both encourage more rail competition and be an advocate for freight transportation as a whole, including truck transportation.

- The State should fund the Idaho Rail Preservation Program.

Perceptions of the Port of Lewiston

- The State should undertake rail and intermodal planning on a statewide basis.

- The State should take steps to prevent rail abandonment where economically feasible.

- The State should fund the Idaho Rail Preservation Program.

- The State should make additional highway improvements when rail abandonment results in significant increases in truck traffic.

Concluding Comments

Based on the information gathered in the interviews and from the other research performed for this report, the Advisory Group finds that, for reasons that may be beyond the control of the railroads, it is likely that some additional abandonment of light-density lines will occur in Idaho where rail freight traffic has declined significantly or where it has been eliminated completely. One such abandonment, for example, could result from the closure of the three Boise Cascade sawmills that has virtually eliminated all the rail freight traffic on the Idaho Northern and Pacific Railroad line to Cascade.

However, future rail-line abandonment may not be limited to light-density lines. A trend may be developing in rail transportation that could result in abandonment of other Idaho rail lines having more substantial traffic volumes. An example of such an abandonment occurred recently in the year 2000 when the Camas Prairie RailNet received approval from the federal Surface Transportation Board to abandon the line to Grangeville. The potential for abandonment of lines having more significant existing traffic was addressed earlier in the report, and it seemed evident from the interviews that Idaho's rail system is vulnerable to further abandonment on both low and moderate volume lines.

The historical record shows that once adversity hits a short line or a Class I branch line, uncertainty in the minds of shippers and potential shippers can drive a self-fulfilling process that ultimately may result in rail line abandonment, as this uncertainty redirects investment decisions. In the last twenty-five years, Idaho has lost over one-third of its rail miles to abandonment.

Shippers, shipper associations and commissions, short-line rail operators, and Class I long-haul rail operators all envision a potential role for the government of Idaho with regard to rail transportation policy. Their views regarding such a role for State government stem from their concern about the economic circumstances and viability of some branch lines on short-line railroads and from their perception of the vulnerability of shippers on those lines. Significant differences of opinion about rail service issues among these organizations are documented throughout this report. A detailed listing of potential actions by the State of Idaho is provided in the preceding section of this report.

The Class I railroads focused on two primary areas of concern: their own needs for capacity expansion and capital acquisition and the difficulties short-line railroads are having. Whereas the Class I railroads expressed concern about both the short lines' prospects for survival and inability to access capital needed to upgrade capacity, they did not address at this time any steps Class I railroads might take to resolve other issues the short-lines identified as crucial to their survival.

While the short lines also expressed concern for their own ability to upgrade capacity, they were equally concerned with the inability of the Class I railroads to provide clean, completely functional cars in the right quantities and in a timely manner. They also were concerned that the Class I carriers may not always recognize that the larger capacity new railcars exceed the capacity capabilities of the many smaller-shipment receivers across the nation, and that elimination of smaller cars from the railroad inventory may drive current short-line shippers to convert to using trucks.

Short lines identified lack of capital to establish multi-modal loading facilities where needed and to upgrade rail, roadbed and other infrastructure to handle the new larger-capacity rail cars as an important issue. They expressed a strong need for greater coordination and communication between the short-lines and the Class I carriers throughout the entire shipping process. They asserted that Class I carriers sometimes may leave little or no room in the total cost of shipments for the short-lines' fees. They stated that, because of this pricing policy, when they charge the fees necessary for their own financial survival, in many cases the total cost of the shipment is raised to the point where shippers convert to trucks.

Shippers, associations, and commissions expressed many of the same concerns raised by the short-line railroads. They also were concerned about lack of enough specialized rail cars, lack of intermodal loading facilities, and substantive difficulties in working with the Class I railroads in shipping less than 100-car unit trains.

Producers of commodities such as grain, potatoes, lumber and minerals are generally "price takers" who have little influence over the market price paid for specified grades of product. Consequently, when charges are applied to various stages of shipping or processing (for example rail car switching rights charges), these costs tend to reduce the price offered to the farm, lumber mill, or mine. Inadequate rail car availability, rail car maintenance, rail car cleanliness, inadequate track capacity, and so forth represent costs to shippers that to some degree are shifted back to the farm, mine, or mill in the form of lower commodity prices.

The interviews revealed that some of the branch lines on Idaho's railroads could be vulnerable to possible abandonment in the near future. The lines that are possibly threatened with closure in the near term appear to be a portion of the Camas Prairie RailNet line from Orofino to Jaype beyond Konkolville Lumber, and as mentioned previously, the Idaho Northern and Pacific Railroad (INPR) line from Emmett to Cascade. The former is vulnerable due to the closure of the Potlatch mill at Jaype, and the shifting of log traffic from rail to truck. The latter is vulnerable due to the closure of the Boise Cascade sawmills on the line. However, no official notices of abandonment have been filed by either railroad, and the INPR continues to offer tourist and excursion passenger service over portions of the line to Cascade.

The interviews also revealed that most, if not all, the short lines have insufficient capital available to invest in infrastructure improvements necessary to overcome years of

deferred maintenance by the former Class 1 owners and also to upgrade their rail infrastructure to accommodate the newer 286,000-pound cars.

The interest groups surveyed asserted that the State of Idaho could make a positive contribution to the survival of short-line railroads and the shippers they serve by being more active in the transportation policy arena. However, because the federal government has primary authority over the conduct of interstate commerce, there are significant federal constraints on the role that the State of Idaho can play with regard to rail transportation policy.

Nevertheless, respondents to the rail transportation survey identified a number of specific activities that the State of Idaho could potentially participate in, and identified a more general policy and facilitation role the State could perform. A detailed listing of potential actions by the State of Idaho is provided in the preceding section of this report. Implementation of the respondents' suggested actions could affect the shape of Idaho's future freight transportation system, and could have implications for its multi-modal structure, diversity, and competitiveness.

The Idaho Legislature recognized the importance of maintaining a healthy rail transportation system in passing House Concurrent Resolution 17 in 2001, which led to this report. House Bill (HB) 269, the Idaho Rail Preservation Program, which became law in 2001, could potentially serve as a legislative foundation for policies designed to address issues identified in this report.